Standardized Performance Analysis 1

Business

**Commit to 12 SPA Sessions in 2009**

*Numbers, when used correctly, can pinpoint strengths, weaknesses, identify trends and help managers cut production costs. Standardized performance analysis (SPA) can help you keep money from slipping through your fingers.*

By Lorie Woodward Cantu

**Editor’s Note:** In the cattle business, keeping an eye on the bottom line is always important, but in volatile financial times it is essential. To give you the tools you need to accurately analyze your cow-calf operations, *The Cattleman* is partnering with Dr. Damona Doye, Regents professor and Extension economist at Oklahoma State University/Oklahoma Cooperative Extension Service, and Stan Bevers, professor and Extension economist at Texas A&M University/Texas AgriLife Extension, for a 12-part series on Standard Performance Analysis (SPA).

 Each month, in this space, you will find a short article providing basic information on SPA. Additional information, including a related “homework” assignment and links to educational publications will be published on *The Cattleman’s* Web site, [www.texascattleraisers.org/SPA](http://www.texascattleraisers.org/SPA). If you choose to take advantage of these resources, you will, in December, have a complete SPA workbook and good handle on the information necessary to make solid, informed business decisions.

At the beginning of 2009, there is only one economic certainty: uncertainty. When times are tough like they are now, profit margins and margins for economic error vanish making good production and financial records invaluable.

“It’s easy to make money when times are good,” says Dr. Damona Doye, Regents professor and Extension economist at Oklahoma State University. “But when things become tighter it makes sense to take a hard look at your operation’s numbers, especially if you haven’t done so in the past.”

 One of a cow-calf producer’s most useful tools is Standard Performance Analysis (SPA). SPA was created about 20 years ago by the National Cattlemen’s Beef Association because no standardized method of performance analysis existed in the cow-calf industry. Today, according to information from Texas AgriLife Extension Service, producers in the Southwest, which includes Texas, Oklahoma and New Mexico, have a reputation for leading the U.S. in SPA analyses. Data for approximately 356,000 cows from 526 southwestern herds are summarized within the Southwest SPA database.

 SPA is a computer software program that integrates both production and financial data. It is not a record-keeping program, but an analysis tool, creating a picture of a ranch unlike any other.

 “Even if you’re doing a good job of keeping financial and production records, SPA allows you to package the information differently, which is going to provide you with different insights,” Doye says. Numbers, when used correctly, can pinpoint strengths, weaknesses, identify trends and help managers cut production costs, she says.

 “Think about sports teams and how they use statistics,” Doye says. “ A basketball team doesn’t just keep track of free throw percentages; their coaches track a whole host of different numbers to give a complete picture of what is going on down on the court.”

 In the case of SPA, the analysis tool uses some very specific measures that most people have not considered before. For instance, the tool allows producers to compute and then consider benchmarks like rate of return on assets, net income per cow, pounds weaned per exposed cow, grazing and feed costs per cow.

 To calculate these measures, “SPA relies on very specific definitions and very specific procedures to reconcile accounts over time,” Doye says. “By having very rigid definitions, we ensure that the numbers derived can be compared to not only past years, but all the coming years.”

 For instance, to calculate the calving percentage, a producer uses the number of exposed cows at a given period of time instead of the highest total number of cows during the year. The number of calves born is divided by the number of females exposed adjusted for both exposed pregnant females sold or transferred out and the number of exposed females or pairs added between breeding and calving.

 Why? Because cattle numbers fluctuate drastically within a year due to range conditions, market conditions and herd health issues. By tying the number to a specific time period, it clearly delineates the appropriate number, making sure that any information generated is consistent.

 “SPA standardizes information, allowing producers to not only make valid comparisons across farms but across time,” Doye said. “If you’re not consistent in how you generate and analyze numbers, you’ll end up comparing apples to oranges and not really learning anything about your operation.”

 One example of how inconsistency can affect data comes from the financial side where participants create accrual adjusted income statements. If one year, the producer values his land using the amount he paid for it 20 years ago and the next year, he uses the current market value of the land for his calculations, he will not have information that is comparable or useful.

 Of course, capturing the information required for a successful SPA program takes a commitment.

 “Getting your records in order for SPA is a fairly in-depth process,” Doye said. “It is not something that you’ll be able to knock out in an hour or an afternoon, but for an operation of any size where profitability is a major concern, it is time well spent. If you’ve never kept records before, it might be daunting to establish a system to meet the demands of SPA, but using it as a guideline, you’ll be assured that your new system is top-notch.”

 “As you gather the information, you’ll discover deficiencies in your record keeping and will be forced to take a long, close look at the information, identifying your operation’s strengths and weaknesses. The bottom line is that SPA causes introspection.”

 “With all that said though, SPA is not a panacea for bad business practices. You have to take charge of the information, put it into practice and make the necessary changes to get the full benefits of the program.”

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